Dominion Foundries and Steel, Limited
Annual Report 1975

Preparing today

for tomorrow's needs

Highlights

	1975	1974	Increase (Decrease)
Production of ingots and castings —net tons*	**3,053**	3,060	(.2%)
Shipments of flat rolled products and steel castings—net tons*	**2,348**	2,455	(4.4%)
Sales*	**$738,083**	$681,636	8.3%
Net income*	**$ 55,473**	$ 70,402	(21.2%)
Net income—per common share	**$ 3.46**	$ 4.41	
Net income—percent of sales	**7.5%**	10.3%	
Net income—percent of average capital employed	**7.5%**	11.3%	
Net income—percent of average common shareholders' equity	**13.2%**	18.7%	
Dividends declared—total*	**$ 23,656**	$ 20,825	13.6%
Dividends declared—per common share	**$ 1.44**	$ 1.26	14.3%
—per preferred share	**$ 4.75**	$ 4.75	—
Capital expenditures—manufacturing*	**$100,234**	$ 84,837	18.1%
Expenditures on mining properties*	**$ 18,522**	$ 5,117	262.0%
Depreciation*	**$ 37,817**	$ 34,884	8.4%
Average number of employees	**11,700**	11,500	1.7%
Number of holders of common shares	**15,932**	16,110	(1.1%)

*In thousands.

On pourra se procurer le texte français de ce rapport annuel en s'adressant au secrétariat de la Compagnie, case postale 460, Hamilton, Ontario.

The Annual General Meeting of Shareholders will be held at the offices of the Company in Hamilton, Ontario, on Friday, April 30, 1976, at 12:00 o'clock noon.

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Director, Dominion Securities Corporation Harris & Partners Limited, Toronto

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Chairman and President, Otis Elevator Company Limited, Hamilton

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Executive Vice President – Commercial

Roger G. Doe
Partner, Campbell, Godfrey & Lewtas, Toronto

Robert C. Dowsett
President, Crown Life Insurance Company, Toronto

Dr. John R. Evans
President, University of Toronto, Toronto

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Vice President – Operations

Howard J. Lang
Chairman and Chief Executive Officer, Canron Limited, Montreal

John D. Leitch
President, Upper Lakes Shipping Ltd., Toronto

W. Harold Rea
Chairman, Great Canadian Oil Sands Limited, Toronto

John G. Sheppard
Executive Vice President – Financial

Frank H. Sherman
President and Chief Executive Officer

OFFICERS

Frank H. Sherman
President and Chief Executive Officer

R. Ross Craig
Executive Vice President – Commercial

John G. Sheppard
Executive Vice President – Financial

David A. Lindsey
Vice President – Raw Materials, Purchases and Traffic

William C. Hassel
Vice President – Operations

F. John McMulkin
Vice President – Research

William J. Stewart
Vice President – Product Quality and Development

Jack Plumpton
Vice President and Comptroller

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Vice President – Personnel

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Treasurer

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Secretary

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Assistant Comptroller

Bill P. Solski
Assistant Treasurer

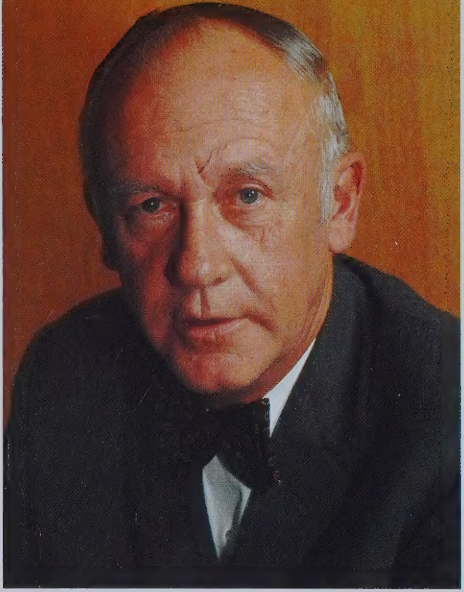
Robert J. Swenor
Assistant Secretary

Robert E. Wodehouse
Assistant Comptroller

Hendrik A. Keur
Assistant Comptroller

Robert W. Grunow
Assistant Comptroller

President's message



Performance

1975 was a difficult year because of the business conditions that prevailed throughout Canada. Our sales reached a record level of $738 million and net income of $55 million was the second highest in the Company's history. Net income per common share was $3.46 compared to $4.41 in 1974. The effect of higher prices for most flat rolled products and greater profit contribution by our subsidiaries was more than offset by significantly higher costs and reduced shipments in the basic steel operations.

Production of 3,052,600 tons of ingots and castings was slightly below the record level of 1974. The lower output was to some extent due to the shortage of ironmaking capacity caused by blast furnace relines and modifications. Ingot production rates improved substantially during the fourth quarter and records were achieved in several areas.

Investment

To be competitive and maintain our position in the growing Canadian market for steel, high levels of capital spending are essential. Since 1969, capital expenditures on manufacturing and mining facilities have totalled $435 million. The cost of building these facilities has risen drastically in the past few years because of inflation. It is essential that profit margins are adequate to provide funds for future growth and product development.

Government

We have said that we will do our part to curb inflation. While we dislike controls, we will continue to support the Anti-Inflation Act guidelines. Because of the confusion in interpreting the legislation without further clarification, it is difficult to assess its impact. In a detailed brief to the Federal Government, we made specific recommendations on several major points that are of concern.

- Limiting price increases to cover only net increases in costs could continually decrease profit margins. This could severely limit the provision of adequate funds for expansion, replacement of equipment and satisfactory shareholder returns.
- We think it is wrong to freeze dividends. We have recommended to the Federal Government that dividends be permitted to increase during the control period in the same fashion as increases in wage levels permitted under the guidelines.

We are also concerned about the possible effect of the regulations on our profit sharing plan for employees which has been an important part of our excellent employee relations since 1938. Representations are being made on this matter to the Government and to the Anti-Inflation Board.

In recent months there has been increased concern in Canada about the extent of government involvement in the private sector. While we accept the need for temporary controls to help curb inflation,we strongly object to the continued expansion of government into the private sector on a permanent basis. These objections are made with the clear conviction that increased government intervention will not serve the best interests of Canadians.

Board of Directors and Management

We were saddened by the death on October 7, 1975 of Mr. James L. Lewtas, partner in the law firm of Campbell, Godfrey & Lewtas. Mr. Lewtas made an outstanding contribution both as a Director for the past eight years and as Counsel to the Company for many years. He was a fine person, greatly admired and held in deep affection by his associates and fellow Directors.

To fill the vacancy, the Directors elected Mr. Roger G. Doe. Mr. Doe is a partner in the firm of Campbell, Godfrey & Lewtas.

At our last Annual Meeting Miss Dorothy M. Cauley turned over the reins as Corporate Secretary. Over the years, Miss Cauley played an important role in a number of supervisory positions prior to assuming the position of Corporate Secretary. She continues to play an active part in management. Following the meeting, Mr. Graham Wilson was appointed Corporate Secretary. Mr. Wilson was Assistant Secretary prior to this appointment.

On behalf of the Board of Directors I am pleased to express our appreciation to all employees for their fine performance during this difficult year, and to our customers, suppliers and shareholders for their continued strong support.

In 1976, we look for gradual improvement in the Canadian economy, a strengthening in steel demand, and a better year all-round.

F. H. Sherman

Hamilton, Ontario
March 11, 1976

F. H. Sherman
President

Financial

Profits and costs

Net income in '75 was $55 million, the second highest in the Company's history. However, this was 21% lower than the record of $70 million reached in '74. Earnings per common share were $3.46 compared to $4.41 in '74.

Sharply higher costs of purchased raw materials, supplies and services, together with a reduced volume of shipments of certain flat rolled steel products adversely affected steel-making profits. For example, wage rates increased an average of 20% effective August 1. The average cost of a ton of iron ore increased 27%. A comparison of December '75 and December '74 prices shows coal increased by 19%, natural gas 43% and electricity 11%. Rates for water used in our operations rose 128%. These factors were offset to some extent by price increases for most of the steelmaking products and improved results of certain of the subsidiaries.

Subsidiaries

National Steel Car, which manufactures railway rolling stock, operated at capacity throughout the year. Sales reached a record $104 million and earnings improved significantly. A new two-year collective agreement with the hourly-rated employees was ratified effective October 5, 1975.

Prudential Steel Ltd. of Calgary, which produces small diameter pipe and hollow structural steel products, had improved sales but lower earnings. The new hollow structural steel mill which began operating in the second quarter of '75 went through a period of break in but is now operating efficiently.

BeachviLime Limited, which provides us with the bulk of our limestone product requirements, had a good year with improved sales and earnings. A new rotary kiln will be constructed at an estimated cost of $7.4 million and is expected to be completed in late '77. Also during '75, contract negotiations resulted in a new two-year labour agreement effective April 1, 1975.

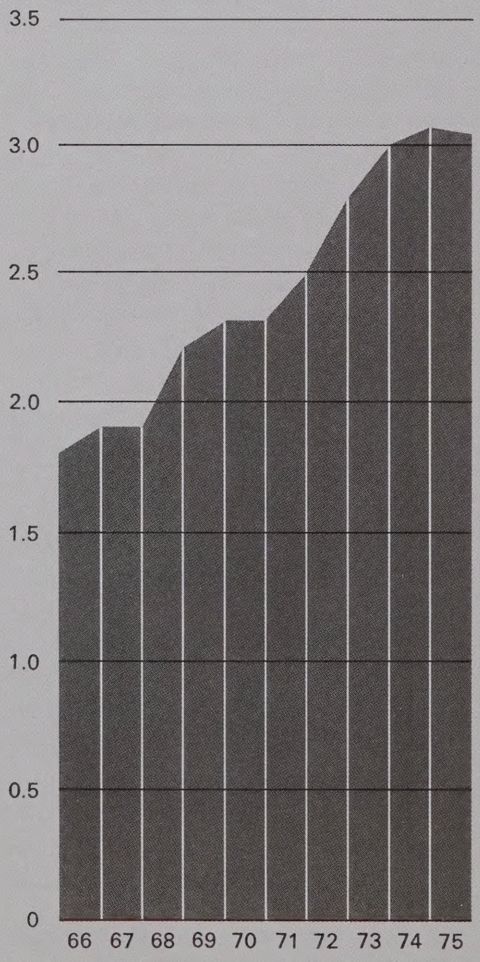
Operations at Baycoat Limited, a 50% owned joint venture, were adversely affected by the slow economic conditions in '75 and as a result, earnings were significantly lower.

Working capital

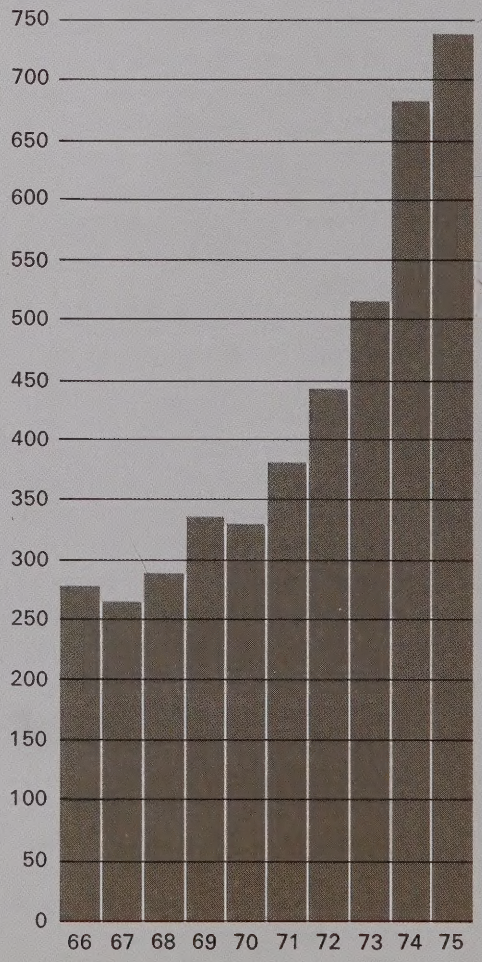
The Company's working capital position increased $51 million to $211 million at year end. The major changes were brought about by $112 million from operations as well as $59 million from a new debenture issue and capital expenditures of $117 million on manufacturing and mining. Further details of the changes are set out on page 15.

Physical inventories were considerably higher at year end due to more satisfactory raw material and in-process inventory levels. Raw material cost

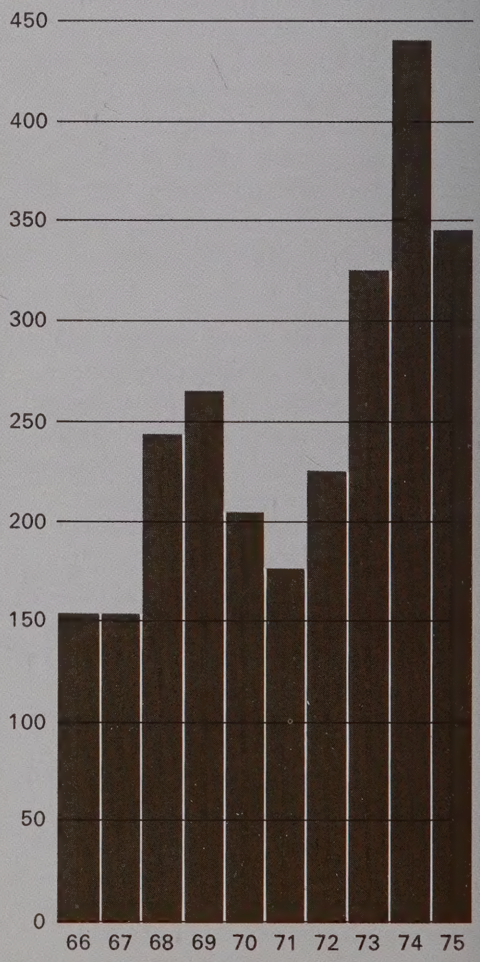
INGOTS AND CASTINGS PRODUCTION
In millions of net tons



ANNUAL SALES
In millions of dollars



NET INCOME
Cents per common share



increases also contributed substantially to the greater dollar investment in inventories during much of the year. At year end, $243 million was invested compared to $136 million at December 31, 1974.

Long term debt

The Company borrowed $60 million during the year by issuing 10⅞% sinking fund debentures which mature May 15, 1995. An additional $60 million in 20-year sinking fund debentures will be issued on March 15, 1976 at $99.50 with an interest rate of 10⅜% to yield about 10.43%. There is also available $100 million Canadian revolving bank credit terminating December 31, 1982. At December 31, 1975 none of this bank credit was being used. Notes payable of $22 million were outstanding at year end.

To provide better co-ordination of all long-range planning activities a new planning services department was formed in 1975.

A swing grinder in the foundry puts the finishing touch on a casting.

Capital structure

On May 5, 1975, following shareholder approval at the Annual Meeting in April, the share capital of the Company was altered to permit the payment of "tax-deferred" dividends. The share capital alteration resulted in the reclassification of the common shares of Dofasco as Class A Convertible Common Shares and the authorization of an equal number of Class B Convertible Common Shares. The two classes are interconvertible at any time on a share-for-share basis.

At December 31, 1975, 15,037,076 Class A and 709,886 Class B Convertible Common Shares were issued and outstanding.

Dividends

On the Class A common shares dividends of 36 cents a share were declared for each quarter. In '74 a dividend of 30 cents was declared for the first three quarters and 36 cents for the fourth quarter. The total declaration for the '75 year was $1.44 compared to $1.26 in '74, a 14% increase.

After payment by the Company of the special 15% tax, Class B shareholders received dividends of 30.6 cents quarterly out of "tax paid undistributed surplus" beginning with the July 1, 1975 payment.

Common and preferred dividends declared in '75 exceeded $23 million compared to $21 million in '74.

Production and planning

Ingot and casting production was 3,052,600 tons in '75, close to the record level of '74. This was accomplished despite having three of the four blast furnaces out of service for relining at different times during the year. The largest furnace, No. 4, was shut down for reline in the third quarter resulting in curtailed steel production. Ingot purchases helped

maintain hot mill operating levels particularly in the third quarter. Despite the reline of No. 2 blast furnace, an adequate iron supply in the fourth quarter allowed ingot and hot rolled steel production to proceed at record-breaking levels. Last quarter output for the blast furnaces, steelmaking plant and hot mill were all substantially higher than the same period in '74.

During the year, the production planning and control areas were reorganized as part of a coordinated effort by sales and production to optimize the use of facilities and provide maximum customer service.

The high level of capital spending continued in '75, to increase capacity and improve efficiency. Capital expenditures on new manufacturing and mining facilities and properties were $117 million, the highest in the Company's history. We expect further large expenditures in '76 as work progresses on a number of major projects. Inflation continues to have a significant impact on construction costs. The amount still to be spent on authorized capital projects of Dofasco and its subsidiaries, including capital investments in mining facilities other than the Eveleth expansion, was approximately $260 million at December 31, 1975.

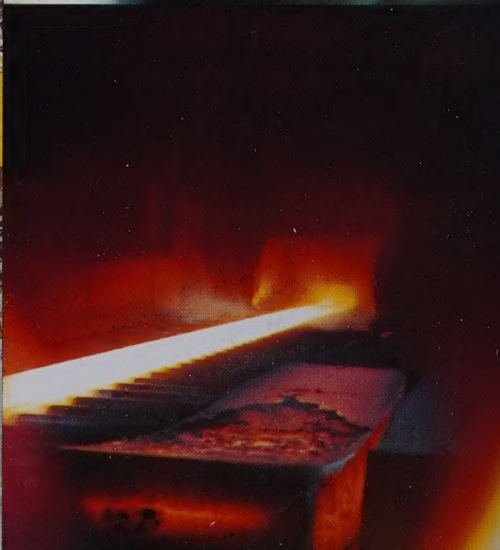
The following major projects were completed in '75:

- the rebuilding and modernization of the No. 1 blast furnace, increasing ironmaking capacity by approximately 20%;
- a new continuous annealing tunnel furnace in the electrical steels area which began operating in April;
- an addition to the main office;
- a purchase of an undeveloped iron ore property near Nakina, Ontario.

Projects currently in progress are:

- a 5-stand 72" cold mill scheduled for completion in '76 which will increase capacity and improve product quality;
- a 66" hot strip slitter expected to be completed in late '76;
- a second basic oxygen steelmaking plant, scheduled to be completed in late '77 with an initial annual capacity of one million ingot tons. This plant is designed so that its capacity may be expanded in stages to 4.5 million ingot tons;
- a battery of 35 coke ovens capable of producing approximately 460,000 tons of coke annually, scheduled for completion in '78;
- the purchase of some long delivery items has been authorized as part of the modernization of the foundry but the final content and timing of this project has not yet been determined.

Dofasco is participating with National Steel Corporation of the United States, Estel NV Hoesch-Hoogovens of the Netherlands, Thyssen International (a subsidiary of August Thyssen Hutte AG of West Germany) and Cansteel Corporation, an agency of the Nova Scotia



government, to determine the feasibility of establishing a steel plant in Cape Breton, Nova Scotia.

Commercial

Consolidated sales in '75 were $738 million, an increase of 8.3% over '74. Much of this dollar growth was due to increased selling prices for most of our steelmaking products, and the higher sales of our subsidiaries. Shipments of flat rolled products in '75 declined 4.4% to 2,307,195 tons, reflecting the general decline in Canadian economic activity. Casting shipments remained near their record '74 level of 40,559 tons at 40,437 tons.

Estimates indicate that purchases of flat rolled products in Canada were off about 13% in '75. The drop in demand began during the second quarter and as a result, allocations of steel products to customers, which had been necessary because of steel shortages in '74 were discontinued. Sales and production performed well in maintaining good service and quick delivery of quality products during this period of soft demand.

Outlook

Looking ahead is never an easy task. It is particularly difficult now because of the anti-inflation legislation and the uncertainty about the speed of the expected recovery of the economy. Despite these factors, demand for flat rolled steel should improve and good operating levels are expected as the year progresses. The Canadian steel industry should produce about 15 million ingot tons in '76. Domestic consumption and shipments are expected to be up about 7%.

In recent months there has been some indication of offshore steel being imported into Canada at prices below those prevailing in the country of origin. Dofasco has initiated a formal complaint and will continue to monitor the situation.

No forecast of the prospects for steel would be complete without considering the outlook for major steel users. Automotive sales should improve slightly as '76 models have gained good acceptance. During the fourth quarter both Canadian and U.S. sales advanced strongly and sustained recovery throughout '76 is expected in both countries.

Growth in the container industry should continue through the year assuming there is no punitive legislation passed against beverage cans in Ontario.

Expected increased activity in residential construction will require more steel than in '75. This should also improve the demand for consumer goods. Steel demand from the appliance industry is very strong and should continue throughout '76.

Nonresidential construction activity is expected to remain slow for the first half of '76, however, some improvement should occur during the

Open pit iron ore mining at the Adams Mine at Kirkland Lake, Ontario.

Dofasco's three galvanizing lines supply approximately 50% of Canada's galvanized steel requirements.

A red hot steel strip being processed in the hot mill.

second half of the year.

The outlook for prepainted steel is excellent. This Baycoat product is gaining good acceptance in the commercial, industrial, and agricultural cladding markets as well as in various consumer goods applications.

Agricultural equipment sales should remain good and we look for steady sales of steel to the farm implement industry, provided weather conditions result in a good crop year.

The foundry should operate at good production rates for the first six months of the year. After that, demand for nonrailway castings is expected to take up some of the slack caused by a probable decline in railway casting orders during the second half of the year.

National Steel Car entered '76 with a sufficient backlog of railway freight car orders to ensure good production rates until midyear. The level of production later in the year will depend on the receipt of new orders.

The outlook for Prudential Steel is excellent. Demand remains strong for the Calgary-based subsidiary's products.

BeachviLime should operate at capacity throughout '76 due to strong demand for limestone products.

Raw materials

The great majority of the Company's current requirements of iron ore is provided from mines in which Dofasco has ownership interests, including Wabush, Adams and Sherman Mine. These mines were expected to provide Dofasco with approximately 3.1 million gross tons of iron ore in '75. However, as a result of a 25-week strike at Wabush the Company's share of total production from the three mines was limited to 2.9 million gross tons. The remainder of the requirements were met from open market purchases. Production from the Adams and Sherman Mine was excellent in '75.

New 3-year labour agreements covering employees at the Adams and Sherman mines became effective February 28, 1975. The strike at Wabush ended in September with the signing of a new contract which expires February 28, 1978.

Based on current annual mine production levels, it is estimated that the proven ore reserves are sufficient to enable production to continue for 24 years at Adams, 24 years at Sherman and 63 years at Wabush.

Dofasco is participating in the expansion of a mine and pellet plant at Eveleth, Minnesota. Production is expected to commence late in '76. Through a 16% ownership interest and a long-term purchase contract, the Company will receive approximately 675,000 gross tons of

The Sherman Mine at Temagami, Ontario makes daily shipments of quality iron ore pellets to Dofasco.

pellets annually.

In June '75 Dofasco purchased two iron ore bodies located near Nakina, Ontario containing estimated iron ore reserves equivalent to approximately 90,000,000 gross tons of iron ore pellets. This is part of our long-range program to provide sources of iron ore in the future. We are also investigating the possible development of properties in Northern Ontario and elsewhere.

Last year's metallurgical coking coal requirements were met through a combination of ownership interest, purchase contracts and open market purchases. United States coal mines have traditionally provided the bulk of this coal both for our operations and those of the Canadian steel industry generally. In '76, our estimated requirements are between 1,800,000 and 2,000,000 tons. Ownership interest will provide 250,000 tons, 1,400,000 tons are expected from contract sources and the remainder from open market purchases. We are investigating the acquisition of new ownership interests and interests by way of additional long-term purchase contracts in coal properties both in the United States and in Western Canada to provide the additional coal for our expanding requirements.

Research and product development

During '75, considerable research effort was directed to the efficient selection and use of materials. Projects included:

- Research continued on the selection, recovery and reuse of oils to lower lubrication and rolling costs and reduce a disposal problem. This was part of an ongoing program designed to advance our understanding of rolling oil technology.
- Our coking coal evaluation facilities were expanded to provide improved service for the production and purchasing departments.
- A joint hot mill production-research project led to the use of new types of rolls and a change in roll grinding methods resulting in a reduction in costs.

In cooperation with the product development department, a system was developed to protect light gauge steel from corrosion when used for basements or other foundation structures.

The product development department continued to assist customers in developing products and promoting the use of steel in new applications.

During '75 work in mobile home design and the general application of steel in housing continued. A steel perimeter frame for mobile homes was designed and is now gaining general

The photoelectron spectrometer is used to scan surface layers of steel to detect films and residues.

acceptance in the industry.

Current projects in the rapid transit field include development work on double-decker transit cars for GO Transit and consultant work for the Toronto Transit Commission and Canadair.

The environment

Dofasco has been committed for some years to programs designed to reduce pollution to meet the Ontario Government's environmental control standards. During the seventies, capital expenditures for these purposes were $44 million, including $9.2 million spent in '75. Operating costs of this control equipment in '75 were $6.5 million.

Projects under way or recently completed include:

- The expansion of the plant that removes phenol from waste water was completed during the year.
- An air cleaning facility has been installed at the No. 1 blast furnace and modifications are being made to better contain the dust to be filtered.
- A cold mill waste water plant has been completed and is operating on a test basis.
- A system to collect fumes caused by coke oven unloading operations is being installed on one of the two existing coke plants.
- A contract has been awarded for the construction of a waste treatment plant which will eliminate effluent from the process which desulphurizes coke oven gas.
- Engineering is under way for a system to collect charging and tapping emissions from the basic oxygen furnace.
- Engineering is proceeding on the rebuilding and expansion of the thickeners used in clarifying waste water from the steelmaking and blast furnace operations.

Employee relations

In '75 we employed an average of 11,700 people in our operations, including 2,000 in the subsidiaries.

Training

During the year we continued to encourage all employees to upgrade their skills. Over 390 employees took advantage of our tuition refund plan to further their education at secondary and post secondary institutions.

In September, 51 tradesmen graduated from Dofasco's apprenticeship programs. These graduates bring to 1,130 the number of people who have completed their apprenticeships since the programs began.

In October, 32 employees, many of them new supervisors, started the supervisory training course. The 18 half-day sessions concentrate on Company policy and employee relations. A second course concerned

Two clarifiers clean water used in iron and steelmaking operations.

with developing, appraising, interviewing and counseling skills was also held. Since 1968, 800 supervisors have taken part.

Benefits

During the year, several improvements were made to our wide-ranging benefit programs. These included upgrading of early retirement benefits for those wishing to retire between age 58 and 65 with a minimum of 25 years' service. Reductions in the length of service required for holidays were introduced. Weekly sickness and accident indemnity benefits were increased and paid up life insurance policies for retiring employees were raised. Significant improvements were made to the Company's dental plan and a hearing aid benefit was introduced.

The estimated annual cost of all major employee benefits for the average employee is $5,059, including the 1975 profit sharing, of which $4,532 is paid by the Company. These substantial benefits are, of course, in addition to all salary, wage and incentive payments.

Suggestion system

Since 1936, when Dofasco's suggestion system was started, more than $1,600,000 has been paid out to employees for suggestions that improve operations, cut costs and reduce waste. In '75, 981 suggestions were adopted and payments totalled $206,000.

Industrial health

The subject of industrial health has become a major public issue in recent months. Safeguarding employees' health is not new to Dofasco. For many years the Company has had a well-developed in-plant preventive medicine program. Our medical department includes a staff of three full-time physicians, as well as a number of nurses and medical technicians. All employees are given medicals at regular intervals and special emphasis is given to the relationship of the job and the employee's health.

In late '75 the Ontario Government issued The Report of the Interministerial Task Force on Occupational and Environmental Health. The report noted: "The program of record-keeping at Dofasco is probably the best in the Province and should be examined more closely as a guide to developing a system of exposure records for the Province. . . The company seems to have implemented their program without consideration of costs. The company is very progressive and has been a very useful reference point for the Minister of Health."

Dr. R. H. Martin, Dofasco's Medical Director, was recently appointed a member of the Ontario Ministry of Health Advisory Council. The Council's duties will include advising the Government on matters relating to occupational and environmental health.

Prudential Steel Ltd. of Calgary, has expanded into new markets with the manufacture of hollow structural steel.

Dominion Foundries and Steel, Limited

Consolidated statement of income and retained earnings

for year ended December 31, 1975

(with comparative figures for 1974—in thousands of dollars)

		1975		1974
Income				
Sales (note 11)		$738,083		$681,636
Cost of sales (excluding the following items)	$602,686		$526,900	
Depreciation	37,817		34,884	
Allotted for employees' profit sharing	6,436		11,107	
Interest on long term debt (less discount on purchase of debentures)	15,767	662,706	9,678	582,569
Income from operations		75,377		99,067
Income from investments (including corporate joint ventures, 1975—$676; 1974—$1,164)		4,596		7,935
Income before income taxes		79,973		107,002
Income taxes		24,500		36,600
Net income for year		$ 55,473		$ 70,402

Retained Earnings				
Balance at beginning of year		$339,351		$289,631
Add:				
Net income for year	$ 55,473		$ 70,402	
Discount on preferred shares purchased for cancellation	50	55,523	143	70,545
		394,874		360,176
Deduct dividends declared:				
Preferred shares	980		987	
Common shares (including tax on undistributed income in 1975)	22,676	23,656	19,838	20,825
Balance at end of year		$371,218		$339,351
Per Common Share Statistics				
Net income (after preferred dividends)		$ 3.46		$ 4.41
Dividends declared and tax thereon		$ 1.44		$ 1.26

See accompanying notes to consolidated financial statements

Dominion Foundries and Steel, Limited
(Incorporated under the laws of Canada)

Consolidated statement of financial position

December 31, 1975

(with comparative figures at December 31, 1974
—in thousands of dollars)

	1975	1974
Current Assets:		
Cash	$ 6,448	$ 8,586
Short term securities and accrued interest	—	53,976
Accounts receivable	94,764	76,549
Inventories (note 2)	243,034	135,925
Prepaid income taxes	4,066	748
	348,312	275,784
Current Liabilities:		
Bank indebtedness	15,577	2,792
Accounts payable and accrued charges	104,806	91,367
Amounts payable for employees' profit sharing	6,436	10,098
Sales and other taxes payable	4,696	5,455
Dividends payable	5,878	5,915
Current requirements on long term debt (note 6)	120	120
	137,513	115,747
Working Capital	210,799	160,037
Fixed assets, less accumulated depreciation (note 3)	569,257	500,307
Undeveloped mining properties and rights, at cost	10,022	—
Investments (note 5)	10,913	11,075
Unamortized debenture issue expense	2,066	1,314
Sundry assets, at cost	3,835	2,701
Capital Employed	806,892	675,434
Deduct—		
Long term debt (note 6)	207,217	126,318
Deferred income taxes	151,200	132,400
	358,417	258,718
Shareholders' Equity	$448,475	$416,716
Represented by:		
Preferred shares (note 7)	$ 20,582	$ 20,690
Common shares (note 8)	56,675	56,675
Retained earnings	371,218	339,351
	$448,475	$416,716

On behalf of the Board:

H. N. Bawden, Director

F. H. Sherman, Director

See accompanying notes to consolidated financial statements

Dominion Foundries and Steel, Limited

Consolidated statement of changes in financial position

for year ended December 31, 1975

(with comparative figures for 1974—in thousands of dollars)

	1975	1974
Source of Funds:		
Operations		
Net income for year	$ 55,473	$ 70,402
Depreciation	37,817	34,884
Deferred income taxes	18,800	12,300
Funds from operations	112,090	117,586
Increase in long term debt		
Proceeds from debenture issue (net)	59,100	49,250
Increase in short term notes payable	22,157	—
Common shares issued for cash	—	180
Decrease in investments	162	82
	193,509	167,098
Application of Funds:		
New facilities and equipment (after deducting investment tax credits in 1975 of $1,643)		
Manufacturing	100,234	84,837
Mining	6,533	3,160
Undeveloped mining properties and rights	10,022	—
Reduction in long term debt	1,258	4,401
Preferred shares purchased for cancellation (less discount)	57	255
Dividends to shareholders	23,656	20,825
Other changes (net)	987	821
	142,747	114,299
INCREASE IN WORKING CAPITAL	50,762	52,799
WORKING CAPITAL AT BEGINNING OF YEAR	160,037	107,238
WORKING CAPITAL AT END OF YEAR	$210,799	$160,037

See accompanying notes to consolidated financial statements

Auditors' report

To the Shareholders of
Dominion Foundries and Steel, Limited:

We have examined the consolidated statement of financial position of Dominion Foundries and Steel, Limited as at December 31, 1975 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies at December 31, 1975 and the results of their operations and the changes in their financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Hamilton, Canada,
January 20, 1976

CLARKSON, GORDON & CO.
Chartered Accountants

Dominion Foundries and Steel, Limited

Notes to consolidated financial statements

December 31, 1975

1. **Summary of principal accounting policies—**
The principal accounting policies followed by Dominion Foundries and Steel, Limited and its subsidiaries have been summarized to facilitate review of the consolidated financial statements:

a) Basis of consolidation—
The consolidated financial statements include the accounts of the company and its wholly-owned subsidiaries, as well as the company's share of the assets, liabilities and expenses of its unincorporated joint ventures (Sherman Mine and Wabush Mines). All significant inter-company transactions have been eliminated.
Investments in partnerships and corporate joint ventures are carried at Dofasco's share of equity therein and advances to such entities. Dofasco's share of their earnings is included in consolidated net income.

b) Inventories—
Inventories of materials, supplies, work-in-process and finished goods are valued at the lower of average cost and net realizable value. Physical inventory quantities are determined at least annually by actual examination or by aerial survey in the case of certain raw materials.

c) Fixed assets, relines and maintenance costs—
Fixed assets are recorded at their historical cost, which includes the cost of installation. Costs to bring a mineral property into production are capitalized as part of the cost of the property.
Investment tax credits related to fixed asset expenditures have been recorded as a reduction of the cost of fixed assets purchased.
Depreciation is computed on the straight-line method applied to the cost of the assets at rates based on their estimated useful life, as follows:

Buildings	2½ to 5%
Equipment	6 to 7½%
Automotive	20 to 25%
Mining facilities	4½ to 5%

The cost of relining blast furnaces is accrued on a unit of production method over the life of the existing lining.
Repairs, maintenance, research, development, current stripping at mines and quarries and start-up costs are expensed as incurred.

d) Deferred income taxes—
Income tax regulations permit the deduction of certain costs (principally depreciation) at a more rapid rate than the companies use in their accounts. The tax effect of these timing differences is recognized in the accounts as deferred income taxes.

e) Revenue recognition—
Revenues from products and services and related costs are reflected in income when goods are shipped.

f) Pension plans—
The companies have funded retirement plans covering substantially all of the employees. Pension costs charged against income during the year, as determined by independent actuaries, include amounts for current and past service. Costs for unfunded past service will be amortized over periods not exceeding 15 years.

g) Profit sharing on steelmaking operations—
For eligible employees involved in steelmaking operations, Dofasco pays 11% of steelmaking profits annually to The Employees' Savings and Profit Sharing Fund and The Deferred Profit Sharing Plan.

2. **Inventories—**

	1975	1974
Materials and supplies	$133,263,000	$ 74,991,000
Work-in-process and finished products	109,771,000	60,934,000
	$243,034,000	$135,925,000

3. **Fixed assets—**

	1975	1974
Manufacturing facilities and equipment, at cost	$817,984,000	$719,694,000
Mining facilities, at cost	141,953,000	136,498,000
	959,937,000	856,192,000
Less accumulated depreciation	390,680,000	355,885,000
	$569,257,000	$500,307,000

4. **Commitments—**
The unexpended portion of authorized capital projects at December 31, 1975 amounted to approximately $260,000,000.
The company is also a participant in Eveleth Expansion Company, a partnership formed to expand an existing mine and pellet plant in Minnesota. It is entitled to receive 16% of the expanded production and is committed to pay that percentage of all costs, including interest and payments on debt. Long term borrowing has been arranged by the partnership for the originally estimated U.S. $195 million total capital cost of the project. Total cost of the expansion is now estimated (due to changes in scope and design, inflation and interest costs during construction) at U.S. $255 million, an increase of U.S. $60 million. It is expected that most of the additional amount required will be provided by additional long term financing which is being negotiated and that the balance will be provided by partnership contributions. Production is expected to commence late in 1976.

5. **Investments—**

	1975	1974
Investments in partnerships and corporate joint ventures, at equity:		
Shares	$ 1,298,000	$ 906,000
Notes, mortgage bonds and other	4,670,000	4,940,000
	5,968,000	5,846,000
Coal companies, at cost:		
Shares	435,000	435,000
Advances	4,510,000	4,794,000
	4,945,000	5,229,000
	$ 10,913,000	$ 11,075,000

6. **Long term debt—**

	1975	1974
Sinking fund debentures—		
6½% due May 15, 1987	$ 28,421,000	$ 28,743,000
9% due February 1, 1991	46,009,000	46,825,000
10% due June 1, 1994	50,000,000	50,000,000
10⅞% due May 15, 1995	60,000,000	—
Short term notes payable (see below)	22,157,000	—
Term bank loan of Prudential Steel Ltd.	750,000	870,000
Outstanding at December 31	207,337,000	126,438,000
Less current requirements	120,000	120,000
	$207,217,000	$126,318,000

Requirements for repayment within the next five years excluding short term notes payable are as follows: 1976—$120,000; 1977—$681,000; 1978—$2,419,000; 1979—$5,180,000; 1980—$7,780,000. The company also has available $100,000,000 revolving bank credit terminating December 31, 1982 (none of which is being used at December 31, 1975). Interest on advances will be at the rate of ⅜ of 1% in excess of the prime commercial rate. The company has the option to take $25,000,000 of the total in U.S. funds.

As the revolving bank credit is available to replace the short term notes, these notes have been classified as long term debt. As one of the terms of borrowing in the short term money market, the company intends to utilize its revolving bank credit only to the extent that such bank credit exceeds its outstanding short term notes.

7. **Preferred shares—**

Authorized—500,000 preferred shares of the par value of $100 each, issuable in series.

Issued —250,000 4¾% cumulative preferred shares, Series A, redeemable at the company's option at a premium of $2 to June 1, 1977 and reduced amounts thereafter of which 205,825 shares are outstanding (1974—206,900).

To December 31, 1975, 44,175 shares have been purchased for cancellation (including 1,075 shares during 1975 for $57,000) as a result of which the company has met its obligations to that date with respect to the purchase fund requirements. In compliance with Section 62 of the Canada Corporations Act, retained earnings of $4,418,000 are designated as capital surplus.

8. **Common shares—**

By Supplementary Letters Patent dated May 5, 1975, the 25,000,000 authorized common shares were reclassified as 25,000,000 Class A convertible common shares without nominal or par value, and 25,000,000 Class B convertible common shares without nominal or par value were created.

The Class A shares and Class B shares are convertible into each other on a share-for-share basis and rank equally in all respects, including dividends, except that, in the case of Class B shares, the directors may declare a tax-deferred dividend out of tax-paid undistributed surplus or 1971 capital surplus in an amount which, when added to the amount of any related tax, will equal the cash dividend on the Class A shares. As at December 31, 1975, the company had available:

1971 undistributed income on hand (any portion of which can be converted to tax-paid undistributed surplus by payment of a special 15% tax)	$100,700,000
1971 capital surplus (eligible without payment of tax after above surplus is utilized)	$ 35,600,000

Of the 15,746,962 common shares outstanding at December 31, 1974 (which were subsequently reclassified as Class A shares), 709,886 shares were converted to Class B shares to December 31, 1975.

The 1974 employee stock option plan, which expires March 28, 1984, authorizes the directors to grant options to employees of the company to purchase up to an aggregate of 480,000 of the unissued Class A shares. The number of shares covered by each option varies with changes in the optionee's remuneration and therefore cannot be determined until the last year of its term. Options to purchase an aggregate of 74,416 Class A shares have been granted (including 29,024 to directors and officers) at $28⅛ per share. No shares have been issued under the plan and no options are held by directors who are not full-time employees.

The disclosure of fully diluted earnings per share, derived from the possible exercise of outstanding stock options, has been omitted as the effect is immaterial.

9. **Retirement plans—**

The estimated unfunded past service costs, not included in the accompanying financial statements at December 31, 1975 were $28,000,000.

10. **Anti-Inflation Program—**

Effective October 14, 1975 the Federal Government passed the Anti-Inflation Act and subsequently issued Regulations which are in force until December 31, 1978.

Under this legislation the companies are subject to mandatory compliance with controls on prices, profit margins, employee compensation and shareholder dividends. The effects on the companies of the Regulations on prices, profit margins and employee compensation are not yet clear owing to uncertainties as to interpretation and the need to develop appropriate data from the companies' records.

Dividends to Dofasco's common shareholders during the year ending October 13, 1976 must not exceed $1.44 per common share.

11. **Sales—**

Consolidated sales include sales by National Steel Car Corporation, Limited of $104,518,000 in 1975 ($92,481,000 in 1974).

12. **Statutory information—**

Expenses for 1975 include remuneration of directors and officers as follows:

a) Fees of twelve directors	$ 83,000
b) Remuneration of thirteen officers (including four directors)	1,145,000
Total remuneration of directors and officers	$1,228,000

The above includes directors' fees paid by National Steel Car Corporation, Limited of $2,700 and Prudential Steel Ltd. of $1,500.

Dominion Foundries and Steel, Limited

Ten year summary of production and financial data

	1975	1974	1973
Statement of income data			
Sales *	**$738,083**	$681,636	$519,558
Cost of sales (excluding the following items) *	**$602,686**	$526,900	$384,343
Depreciation *	**$ 37,817**	$ 34,884	$ 34,940
Allotted for employees' profit sharing *	**$ 6,436**	$ 11,107	$ 10,033
Interest on long term debt (less discount on purchase of debentures) *	**$ 15,767**	$ 9,678	$ 7,580
Income from investments *	**$ 4,596**	$ 7,935	$ 2,079
Income before income taxes *	**$ 79,973**	$107,002	$ 84,741
Income taxes *	**$ 24,500**	$ 36,600	$ 32,200
Net income for year *	**$ 55,473**	$ 70,402	$ 52,541
Financial position data			
Working capital *	**$210,799**	$160,037	$107,238
Fixed assets *—land, buildings and equipment, at cost	**$959,937**	$856,192	$776,935
—accumulated depreciation	**$390,680**	$355,885	$329,741
Total other assets *	**$ 26,836**	$ 15,090	$ 13,601
Capital employed *	**$806,892**	$675,434	$568,033
Long-term debt *	**$207,217**	$126,318	$ 80,719
Deferred income taxes *	**$151,200**	$132,400	$120,100
Total shareholders' equity *	**$448,475**	$416,716	$367,214
Statistical data			
Production of ingots and castings—net tons *	**3,053**	3,060	3,036
Net income per common share (after preferred dividends)	**$ 3.46**	$ 4.41	$ 3.29
Net income—percent of sales	**7.5%**	10.3%	10.1%
Net income—percent of average capital employed	**7.5%**	11.3%	9.4%
Net income—percent of average common shareholders' equity	**13.2%**	18.7%	15.8%
Net worth per common share	**$ 27.17**	$ 25.15	$ 21.99
Dividends—per common share	**$ 1.44**	$ 1.26	$ .97½
—per preferred share	**$ 4.75**	$ 4.75	$ 4.75
Income reinvested in the business *	**$ 31,817**	$ 49,577	$ 36,264
Capital expenditures—manufacturing *	**$100,234**	$ 84,837	$ 37,566
Expenditures on mining properties *	**$ 18,522**	$ 5,117	$ 3,162
Total dividends declared *	**$ 23,656**	$ 20,825	$ 16,277
Number of holders of common shares	**15,932**	16,110	16,272
Percentage of common shares held in Canada	**97.4%**	96.9%	96.4%
Average number of employees	**11,700**	11,500	10,600

*in thousands

1972	1971	1970	1969	1968	1967	1966
$443,775	$380,723	$331,658	$332,610	$280,128	$265,083	$271,086
$334,255	$295,011	$247,988	$235,522	$197,226	$195,860	$199,164
$ 32,922	$ 28,764	$ 26,246	$ 26,387	$ 24,570	$ 20,465	$ 17,504
$ 6,774	$ 5,429	$ 5,623	$ 6,493	$ 5,893	$ 4,776	$ 5,201
$ 9,053	$ 8,245	$ 3,977	$ 3,530	$ 4,867	$ 4,924	$ 3,569
$ 852	$ 1,145	$ 1,578	$ 3,113	$ 2,302	$ 908	$ 609
$ 61,623	$ 44,419	$ 49,402	$ 63,791	$ 49,874	$ 39,966	$ 46,257
$ 25,500	$ 16,400	$ 16,300	$ 21,800	$ 11,500	$ 15,400	$ 21,700
$ 36,123	$ 28,019	$ 33,102	$ 41,991	$ 38,374	$ 24,566	$ 24,557
$102,920	$ 95,496	$ 78,751	$ 83,392	$ 91,510	$ 79,337	$ 69,949
$733,450	$702,283	$618,838	$546,307	$501,156	$480,353	$435,935
$295,944	$263,805	$236,215	$210,433	$184,378	$160,569	$140,792
$ 14,013	$ 8,134	$ 7,501	$ 7,533	$ 7,557	$ 9,820	$ 10,229
$554,439	$542,108	$468,875	$426,799	$415,845	$408,941	$375,321
$112,963	$130,705	$ 80,530	$ 58,100	$ 68,624	$ 86,881	$ 79,436
$112,600	$104,200	$ 94,750	$ 93,750	$101,256	$101,617	$ 88,676
$328,876	$307,203	$293,595	$274,949	$245,965	$220,443	$207,209
2,773	2,468	2,322	2,279	2,180	1,879	1,877
$ 2.25	$ 1.74	$ 2.07	$ 2.64	$ 2.41	$ 1.52	$ 1.52
8.1%	7.4%	10.0%	12.6%	13.7%	9.3%	9.1%
6.6%	5.5%	7.4%	10.0%	9.3%	6.3%	7.1%
11.8%	9.7%	12.2%	17.2%	17.8%	12.4%	13.3%
$ 19.69	$ 18.33	$ 17.48	$ 16.29	$ 14.43	$ 12.71	$ 11.83
$ .90	$ .90	$ .87½	$ .80	$ .70	$ .60	$ .60
$ 4.75	$ 4.75	$ 4.75	$ 4.75	$ 4.75	$ 4.75	$ 4.75
$ 21,057	$ 12,980	$ 18,470	$ 28,534	$ 26,443	$ 14,150	$ 14,132
$ 28,907	$ 52,029	$ 69,873	$ 43,016	$ 18,449	$ 22,748	$ 56,906
$ 2,570	$ 32,916	$ 2,735	$ 3,915	$ 3,499	$ 23,320	$ 27,494
$ 15,066	$ 15,039	$ 14,632	$ 13,457	$ 11,931	$ 10,416	$ 10,425
16,629	17,958	19,511	20,183	20,444	19,696	19,805
96.2%	95.7%	95.0%	94.2%	93.7%	92.7%	90.5%
9,700	9,300	8,600	8,600	7,800	8,100	8,400

Dominion Foundries and Steel, Limited

Subsidiaries	Percentage Ownership
National Steel Car Corporation, Limited, Hamilton, Ontario*	100.0%
Prudential Steel Ltd., Calgary, Alberta*	100.0%
BeachviLime Limited, Beachville, Ontario*	100.0%

Mining Interests

Adams Mine, Kirkland Lake, Ontario*	100.0%
Sherman Mine, Temagami, Ontario*	90.0%
Wabush Mines,* comprising: Scully Mine, Wabush, Newfoundland Arnaud Pellets, Pointe Noire, Quebec	16.4%
Eveleth Expansion Company, Minnesota†	16.0%
Itmann Coal Company, West Virginia†	9.0%

Corporate Joint Ventures

Baycoat Limited, Hamilton, Ontario†	50.0%
International Portable Pipe Mills Ltd., Alberta†	47.8%
Arnaud Railway Company, Quebec†	16.4%
Wabush Lake Railway Company, Limited, Newfoundland†	16.4%
Knoll Lake Minerals Limited, Newfoundland†	9.5%
Northern Airport Limited, Newfoundland†	8.2%
Northern Land Company Limited, Newfoundland†	8.2%
Twin Falls Power Corporation, Limited, Newfoundland†	2.8%

Transfer Agents and Registrars

National Trust Company, Limited—
Toronto, Montreal, Vancouver, Winnipeg, Calgary

Canada Permanent Trust Company—Halifax

The Bank of Nova Scotia Trust Company of New York—New York

*Ownership interest consolidated in Financial Statements
†Included under "Investments" in Financial Statements

Our product is steel.
Our strength is people.

DOFASCO